

CITY OF HANCOCK, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

CITY OF HANCOCK, IOWA
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CITY OF HANCOCK, IOWA
OFFICIALS
June 30, 2016

(Before January, 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Gress	Mayor	January, 2016
Cyndi Guyer	Council Member	January, 2016
Steve Guyer	Council Member	January, 2018
James Kock	Council Member	January, 2018
Herb Handel	Council Member	January, 2016
Jason Best	Council Member	January, 2018
Kimberly Gress	City Clerk	Indefinite
Dave Larson	Attorney	Indefinite

(After January, 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Harold Hoffmann	Mayor	January, 2018
James Kock	Council Member	January, 2020
Steve Guyer	Council Member	January, 2018
Jason Best	Council Member	January, 2018
Josh Billings	Council Member	January, 2020
Cait Caughey	Council Member	January, 2020
Kimberly Gress	City Clerk	Indefinite
Dave Larson	Attorney	Indefinite

Gronewold, Bell, Kyhnn & Co. P.C.

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CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hancock, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

To the Honorable Mayor and
Members of the City Council

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Hancock, Iowa, as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hancock's basic financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 20 through 24, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Honorable Mayor and
Members of the City Council

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2016 on our consideration of the City of Hancock's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Hancock's internal control over financial reporting and compliance.

Garnett, Ben, Kyhan & P.C.

Atlantic, Iowa
November 3, 2016

CITY OF HANCOCK, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

As of and for the year ended June 30, 2016

		<u>Program Receipts</u>	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 41,314	\$ --	\$ 31,850
Public works	28,270	--	19,994
Culture and recreation	15,279	--	--
General government	30,297	2,035	4,109
Debt Service	12,236	--	--
Total governmental activities	<u>127,396</u>	<u>2,035</u>	<u>55,953</u>
Business type activities:			
Water	1,073,356	73,175	--
Nonmajor	31,870	31,162	--
Total business type activities	<u>1,105,226</u>	<u>104,337</u>	<u>--</u>
Total	<u>\$ 1,232,622</u>	<u>\$ 106,372</u>	<u>\$ 55,953</u>
General Receipts:			
Property tax levied for:			
General purposes			
Local option sales tax			
Unrestricted interest on investments			
Bond proceeds			
Miscellaneous			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			

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Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
\$ --	\$ (9,464)	\$ --	\$ (9,464)
--	(8,276)	--	(8,276)
--	(15,279)	--	(15,279)
--	(24,153)	--	(24,153)
--	(12,236)	--	(12,236)
--	(69,408)	--	(69,408)
466,044	--	(534,137)	(534,137)
--	--	(708)	(708)
466,044	--	(534,845)	(534,845)
<u>\$ 466,044</u>	(69,408)	(534,845)	(604,253)
	72,063	--	72,063
	30,009	--	30,009
	10,122	4,311	14,433
	--	574,000	574,000
	346	--	346
	<u>112,540</u>	<u>578,311</u>	<u>690,851</u>
	43,132	43,466	86,598
	<u>272,487</u>	<u>68,786</u>	<u>341,273</u>
	<u>\$ 315,619</u>	<u>\$ 112,252</u>	<u>\$ 427,871</u>

CITY OF HANCOCK, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION - Continued

As of and for the year ended June 30, 2016

		<u>Program Receipts</u>
		Operating Grants, Contributions, and Restricted Interest
	<u>Disbursements</u>	<u>Charges for Service</u>
Cash Basis Net Position		
Restricted:		
Expendable:		
Streets		
Local option sales tax		
Debt service		
Capital projects		
Other purposes		
Unrestricted		
Total cash basis net position		

The accompanying notes are an integral part of these statements.

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
	\$ 60,460	\$ --	\$ 60,460
	166,566	--	166,566
	21,202	38,157	59,359
	21,879	45,733	67,612
	1,846	--	1,846
	<u>43,666</u>	<u>28,362</u>	<u>72,028</u>
	<u>\$ 315,619</u>	<u>\$ 112,252</u>	<u>\$ 427,871</u>

CITY OF HANCOCK, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2016

	<u>General</u>	<u>Special Revenue</u> <u>Road Use</u>
Receipts:		
Property tax	\$ 69,770	\$ --
Other city tax	6,002	--
Licenses and permits	2,379	--
Use of money and property	511	--
Intergovernmental	31,850	19,994
Miscellaneous	3,663	--
Total receipts	<u>114,175</u>	<u>19,994</u>
Disbursements:		
Operating:		
Public safety	41,314	--
Public works	9,464	4,173
Culture and recreation	15,279	--
General government	26,807	--
Debt service	--	--
Total disbursements	<u>92,864</u>	<u>4,173</u>
Excess (deficiency) of receipts over (under) disbursements	21,311	15,821
Other financing sources (uses):		
Transfers in	--	--
Transfers out	(33,370)	--
Total other financing sources (uses)	<u>(33,370)</u>	<u>--</u>
Change in cash balances	(12,059)	15,821
Cash balances beginning of year	<u>55,725</u>	<u>44,639</u>
Cash balances end of year	<u>\$ 43,666</u>	<u>\$ 60,460</u>

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<u>Special Revenue</u>		
<u>Local Option Sales</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ 2,293	\$ 72,063
24,007	--	30,009
--	--	2,379
10,059	--	10,570
--	--	51,844
--	--	3,663
<u>34,066</u>	<u>2,293</u>	<u>170,528</u>
--	--	41,314
14,633	--	28,270
--	--	15,279
--	3,490	30,297
--	12,236	12,236
<u>14,633</u>	<u>15,726</u>	<u>127,396</u>
19,433	(13,433)	43,132
--	33,370	33,370
--	--	(33,370)
<u>--</u>	<u>33,370</u>	<u>--</u>
19,433	19,937	43,132
<u>147,133</u>	<u>24,990</u>	<u>272,487</u>
<u>\$ 166,566</u>	<u>\$ 44,927</u>	<u>\$ 315,619</u>

CITY OF HANCOCK, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - Continued
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2016

	<u>General</u>	<u>Special Revenue</u>
		<u>Road Use</u>
Cash Basis Fund Balances		
Restricted:		
Streets	\$ --	\$ 60,460
Local option sales tax	--	--
Debt service	--	--
Capital projects	--	--
Other purposes	--	--
Unassigned	<u>43,666</u>	<u>--</u>
Total cash basis net assets	<u>\$ 43,666</u>	<u>\$ 60,460</u>

The accompanying notes are an integral part of these statements.

<u>Special Revenue</u>		
<u>Local Option Sales</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ --	\$ 60,460
166,566	--	166,566
--	21,202	21,202
--	21,879	21,879
--	1,846	1,846
<u>--</u>	<u>--</u>	<u>43,666</u>
<u>\$ 166,566</u>	<u>\$ 44,927</u>	<u>\$ 315,619</u>

CITY OF HANCOCK, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2016

	Enterprise Funds		
	Water	Non-Major	Total
Operating receipts:			
Charges for services	\$ 73,175	\$ 31,162	\$ 104,337
Total operating receipts	73,175	31,162	104,337
Operating disbursements:			
Business type activities	68,123	31,870	99,993
Total operating disbursements	68,123	31,870	99,993
Excess (deficiency) of operating receipts over (under) operating disbursements	5,052	(708)	4,344
Non-operating receipts (disbursements):			
Interest on investments	4,311	--	4,311
Intergovernmental	466,044	--	466,044
Debt proceeds	574,000	--	574,000
Debt service	(92,331)	--	(92,331)
Capital projects	(912,902)	--	(912,902)
Net non-operating receipts (disbursements)	39,122	--	39,122
Change in cash balances	44,174	(708)	43,466
Cash balances beginning of year	48,246	20,540	68,786
Cash balances end of year	\$ 92,420	\$ 19,832	\$ 112,252
Cash Basis Fund Balances			
Restricted for			
Debt service	\$ 38,157	\$ --	\$ 38,157
Capital projects	45,733	--	45,733
Unrestricted	8,530	19,832	28,362
Total cash basis fund balances	\$ 92,420	\$ 19,832	\$ 112,252

The accompanying notes are an integral part of these statements.

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hancock, Iowa is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation and general government services. The City also provides sewer and water utilities, and garbage service for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hancock has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements

The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Fund is used to account for the collection and use of local option sales tax.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund accounts for the operation and maintenance of the City's water system.

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items.

Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE 3 - NOTES PAYABLE

Annual debt service requirements to maturity for the general obligation note and revenue capital loan notes are as follows:

Year Ending June 30,	General Obligation Note		Water Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 7,162	\$ 5,074	\$ 19,519	\$ 15,059	\$ 26,681	\$ 20,133
2018	7,441	4,795	19,732	14,653	27,173	19,448
2019	7,731	4,505	20,950	14,234	28,681	18,739
2020	8,033	4,203	21,174	13,800	29,207	18,003
2021	8,346	3,890	9,403	13,466	17,749	17,356
2022-2026	46,875	14,306	50,662	63,683	97,537	77,989
2027-2031	44,519	4,423	57,321	57,024	101,840	61,447
2032-2036	--	--	64,854	49,492	64,854	49,492
2037-2041	--	--	73,375	40,970	73,375	40,970
2042-2046	--	--	83,017	31,328	83,017	31,328
2047-2051	--	--	93,926	20,418	93,926	20,418
2052-2056	--	--	106,067	8,076	106,067	8,076
	<u>\$ 130,107</u>	<u>\$ 41,196</u>	<u>\$ 620,000</u>	<u>\$ 342,203</u>	<u>\$ 750,107</u>	<u>\$ 383,399</u>

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 - NOTES PAYABLE - Continued

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$769,000 in water revenue notes issued in May, 2000 and July, 2015. Proceeds from the notes provided financing for the repair and improvement of the water system. The notes are payable solely from water customer net receipts and are payable through 2056. Annual principal and interest payments on the notes are expected to require more than 100 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$962,203. For the current year, principal and interest paid and total customer net receipts were \$92,303 and \$5,052, respectively. Current year principal and interest paid includes the final principal payment on the Series 2013 water revenue capital loan notes in the amount of \$81,410. Existing net position is used to meet debt service payments in years when the net receipts are not sufficient.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- a. The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers shall be made to a separate water revenue reserve account within the Enterprise Funds until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal at maturity or interest in the note when insufficient money is available in the water revenue note sinking account.
- d. Additional monthly transfers shall be made to a water improvement account within the Enterprise Funds, after first making the required payments to the water revenue note sinking and reserve accounts, until a specific minimum balance has been accumulated. This account shall be used solely for the purpose of paying principal or interest on the note when there is insufficient money in the water revenue note sinking and reserve accounts; and to the extent not required for the foregoing, to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements, payments of rentals on any part of the system and for capital improvements.

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except for members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 - PENSION PLAN - Continued

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$4,388.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$35,724 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0007231%, which was an increase of 0.000013% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$3,013, \$6,869 and \$8,318 respectively.

There were no non-employer contributing entities to IPERS.

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 - PENSION PLAN - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rate of salary increase (effective June 30, 2010)	4.00% to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of IPERS investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 - PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPEFRS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability	\$ 62,546	\$ 35,724	\$ 13,084

IPERS Fiduciary Net Position - Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTE 5 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 33,370

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF HANCOCK, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 - RISK MANAGEMENT

The City of Hancock is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 - COMMITMENT AND CONTINGENCY

Construction Contracts

The City has entered into a construction contract as of June 30, 2016 for the construction of a water main and meter project. The remaining amount committed to these contracts is approximately \$39,000, which will be paid with grant funds.

NOTE 8 - SUBSEQUENT EVENT

The City has evaluated all subsequent events through November 3, 2016, the date the financial statements were available to be issued.

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OTHER INFORMATION

CITY OF HANCOCK, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION

Year ended June 30, 2016

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total</u>
Receipts:			
Property tax	\$ 72,063	\$ --	\$ 72,063
Other city tax	30,009	--	30,009
Licenses and permits	2,379	--	2,379
Use of money and property	10,570	4,311	14,881
Intergovernmental	51,844	466,044	517,888
Charges for service	--	104,337	104,337
Miscellaneous	3,663	--	3,663
Total receipts	<u>170,528</u>	<u>574,692</u>	<u>745,220</u>
Disbursements:			
Public safety	41,314	--	41,314
Public works	28,270	--	28,270
Culture and recreation	15,279	--	15,279
General government	30,297	--	30,297
Debt service	12,236	--	12,236
Capital projects	--	--	--
Business type activities	--	1,105,226	1,105,226
Total disbursements	<u>127,396</u>	<u>1,105,226</u>	<u>1,232,622</u>
Excess (deficiency) of receipts over (under) disbursements	43,132	(530,534)	(487,402)
Other financing sources (uses), net	<u>--</u>	<u>574,000</u>	<u>574,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	43,132	43,466	86,598
Balances beginning of year	<u>272,487</u>	<u>68,786</u>	<u>341,273</u>
Balances end of year	<u>\$ 315,619</u>	<u>\$ 112,252</u>	<u>\$ 427,871</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
\$ 67,655	\$ 67,655	\$ 4,408
25,516	25,516	4,493
1,760	1,760	619
400	400	14,481
33,123	835,523	(317,635)
106,200	106,200	(1,863)
2,000	12,000	(8,337)
<u>236,654</u>	<u>1,049,054</u>	<u>(303,834)</u>
31,167	41,167	(147)
36,766	59,766	31,496
19,327	19,327	4,048
34,385	34,385	4,088
--	132,566	120,330
--	1,294,990	1,294,990
<u>104,600</u>	<u>142,600</u>	<u>(962,626)</u>
<u>226,245</u>	<u>1,724,801</u>	<u>492,179</u>
10,409	(675,747)	188,345
<u>--</u>	<u>574,000</u>	<u>--</u>
10,409	(101,747)	188,345
<u>303,606</u>	<u>303,606</u>	<u>37,667</u>
<u>\$ 314,015</u>	<u>\$ 201,859</u>	<u>\$ 226,012</u>

CITY OF HANCOCK, IOWA
NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$1,498,556. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the public safety and business type activities functions.

See accompanying independent auditor's report.

CITY OF HANCOCK, IOWA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*
OTHER INFORMATION

	<u>2016</u>
City's proportion of the net pension liability	0.0007231%
City's proportionate share of the net pension liability	\$ 35,724
City's covered-employee payroll:	\$ 49,471
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.21%
Plan fiduciary net position as a percentage of the total pension liability	85.19%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

CITY OF HANCOCK, IOWA
SCHEDULE OF CITY CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 2 FISCAL YEARS
OTHER INFORMATION

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 4,400	\$ 4,400
Contributions in relation to the statutorily required contribution	<u>(4,400)</u>	<u>(4,400)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
City's covered-employee payroll	\$ 49,300	\$ 49,500
Contributions as a percentage of covered-employee payroll	8.93%	8.93%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Note: Amounts are rounded.

See accompanying independent auditor's report.

CITY OF HANCOCK, IOWA
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

* * *

SUPPLEMENTARY INFORMATION

CITY OF HANCOCK, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2016

	<u>Special Revenue Trust & Agency</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Receipts:				
Property tax	\$ 2,293	\$ --	\$ --	\$ 2,293
Total receipts	<u>2,293</u>	<u>--</u>	<u>--</u>	<u>2,293</u>
Disbursements:				
Operating:				
General government	3,490	--	--	3,490
Debt service	<u>--</u>	<u>--</u>	<u>12,236</u>	<u>12,236</u>
Total disbursements	<u>3,490</u>	<u>--</u>	<u>12,236</u>	<u>15,726</u>
Excess (deficiency) of receipts over (under) disbursements	(1,197)	--	(12,236)	(13,433)
Other financing sources (uses):				
Transfers in	<u>--</u>	<u>--</u>	<u>33,370</u>	<u>33,370</u>
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>33,370</u>	<u>33,370</u>
Change in cash balances	(1,197)	--	21,134	19,937
Cash balances beginning of year	<u>3,043</u>	<u>21,879</u>	<u>68</u>	<u>24,990</u>
Cash balances end of year	<u>\$ 1,846</u>	<u>\$ 21,879</u>	<u>\$ 21,202</u>	<u>\$ 44,927</u>
Restricted for:				
Debt service	\$ --	\$ --	\$ 21,202	\$ 21,202
Capital projects	--	21,879	--	21,879
Other purposes	<u>1,846</u>	<u>--</u>	<u>--</u>	<u>1,846</u>
Total cash basis fund balances	<u>\$ 1,846</u>	<u>\$ 21,879</u>	<u>\$ 21,202</u>	<u>\$ 44,927</u>

See accompanying independent auditor's report.

CITY OF HANCOCK, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS

As of and for the year ended June 30, 2016

	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating Receipts:			
Charges for service	\$ 12,708	\$ 18,454	\$ 31,162
Total operating receipts	12,708	18,454	31,162
Operating Disbursements:			
Business type activities	14,001	17,869	31,870
Total operating disbursements	14,001	17,869	31,870
Change in cash balances	(1,293)	585	(708)
Cash balances beginning of year	2,585	17,955	20,540
Cash balances end of year	\$ 1,292	\$ 18,540	\$ 19,832
Cash Basis Fund Balances			
Unrestricted	\$ 1,292	\$ 18,540	\$ 19,832
Total cash basis fund balances	\$ 1,292	\$ 18,540	\$ 19,832

See accompanying independent auditor's report.

CITY OF HANCOCK, IOWA
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2016

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Note: 2015 Fire Truck Note	April 14, 2015	3.90%	\$ 137,000
Revenue Notes:			
Water Revenue Capital Loan, Series 2000	May 16, 2000	1.75%	195,000
Water Revenue Capital Loan, Series 2013	July 10, 2013	0.00%	81,410
Water Revenue Capital Loan. Series 2015	July 8, 2015	2.50%	574,000
Total			

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 137,000	\$ --	\$ 6,893	\$ 130,107	\$ 5,343	\$ 1,070
\$ 56,000	\$ --	\$ 10,000	\$ 46,000	\$ 893	\$ 67
81,410	--	81,410	--	--	--
--	574,000	--	574,000	--	14,075
<u>\$ 137,410</u>	<u>\$ 574,000</u>	<u>\$ 91,410</u>	<u>\$ 620,000</u>	<u>\$ 893</u>	<u>\$ 14,142</u>

CITY OF HANCOCK, IOWA
BOND AND NOTE MATURITIES
June 30, 2016

Year ending June 30,	General Obligation Note		Revenue Notes			
	2015 Fire Truck		Water Revenue		Water Revenue	
	Issued April 14, 2015		Capital Loan		Capital Loan	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2017	3.90%	\$ 7,162	1.75%	\$ 11,000	2.50%	\$ 8,519
2018	3.90%	7,441	1.75%	11,000	2.50%	8,732
2019	3.90%	7,731	1.75%	12,000	2.50%	8,950
2020	3.90%	8,033	1.75%	12,000	2.50%	9,174
2021	3.90%	8,346		--	2.50%	9,403
2022	3.90%	8,672		--	2.50%	9,638
2023	3.90%	9,010		--	2.50%	9,879
2024	3.90%	9,361		--	2.50%	10,126
2025	3.90%	9,726		--	2.50%	10,380
2026	3.90%	10,106		--	2.50%	10,639
2027	3.90%	10,500		--	2.50%	10,905
2028	3.90%	10,909		--	2.50%	11,178
2029	3.90%	11,334		--	2.50%	11,457
2030	3.90%	11,776		--	2.50%	11,744
2031		--		--	2.50%	12,037
2032		--		--	2.50%	12,338
2033		--		--	2.50%	12,647
2034		--		--	2.50%	12,963
2035		--		--	2.50%	13,287
2036		--		--	2.50%	13,619
2037		--		--	2.50%	13,959
2038		--		--	2.50%	14,308
2039		--		--	2.50%	14,666
2040		--		--	2.50%	15,033
2041		--		--	2.50%	15,409
2042		--		--	2.50%	15,794
2043		--		--	2.50%	16,189
2044		--		--	2.50%	16,593
2045		--		--	2.50%	17,008
2046		--		--	2.50%	17,433
2047		--		--	2.50%	17,869
2048		--		--	2.50%	18,316
2049		--		--	2.50%	18,774
2050		--		--	2.50%	19,243
2051		--		--	2.50%	19,724
2052		--		--	2.50%	20,217
2053		--		--	2.50%	20,723
2054		--		--	2.50%	21,241
2055		--		--	2.50%	21,772
2056		--		--	2.50%	22,114
		<u>\$ 130,107</u>		<u>\$ 46,000</u>		<u>\$ 574,000</u>

See accompanying independent auditor's report.

CITY OF HANCOCK, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant or Number</u>	<u>Program Expenditures</u>
Direct:			
US Department of Agriculture			
Rural Development:			
Water and Waste Disposal Systems for Rural Communities			
Project grant	10.760	16-078-7029	\$ 241,008
Direct loan*	10.760	16-078-7029	<u>492,590</u>
			733,598
Indirect:			
US Department of Housing and Urban Development			
Iowa Economic Development Authority			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	14-WS-020	<u>179,304</u>
Total Indirect Programs			<u>\$ 912,902</u>

* Outstanding loan balance as of June 30, 2015 was \$81,410.
Total outstanding loan balance as of June 30, 2016 was \$574,000.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Hancock under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Hancock, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Hancock.

Summary of Significant Accounting Policies - Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Hancock has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hancock, Iowa, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 3, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hancock's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hancock's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hancock's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Honorable Mayor and
Members of the City Council

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: 16-II-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hancock's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

The City of Hancock's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Hancock's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ben Kuhn & Co. P.C.

Atlantic, Iowa
November 3, 2016

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Honorable Mayor and
Members of the City Council

Report on Compliance for Each Major Federal Program

We have audited the City of Hancock, Iowa's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the City of Hancock's major federal program for the year ended June 30, 2016. The City of Hancock's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Hancock's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hancock's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Hancock's compliance.

To the Honorable Mayor and
Members of the City Council

Opinion on Each Major Federal Program

In our opinion, the City of Hancock complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the City of Hancock is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Hancock's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hancock's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct non-compliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be significant deficiencies.

The City of Hancock's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City of Hancock's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gmewold, Ben, Kynan & Co. P.C.

Atlantic, Iowa
November 3, 2016

CITY OF HANCOCK, IOWA
Schedule Of Findings And Questioned Costs
Year ended June 30, 2016

PART I: Summary of the Independent Auditor's Results

Financial Statements

- (a) Type of auditor's report issued:
- Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Internal control over financial reporting:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? X yes none reported
- (c) Noncompliance material to financial statements noted? yes X no

Federal Awards

- (d) Internal control over major program:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? X yes none reported
- (e) Type of auditor's report issued on compliance for major program:
- Unmodified.
- (f) Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.515? yes X no
- (g) Identification of major program:
- CFDA Number 10.760 - Water and Waste Disposal Systems for Rural Communities
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
- (i) Auditee qualified as low-risk auditee? yes X no

CITY OF HANCOCK, IOWA
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PART II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

16-II-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: Since there are only two employees at city hall, it is difficult to segregate duties. Duties are segregated to the best of our ability.

Conclusion: Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

PART III: Findings and Questioned Costs For Federal Awards

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities
Contract Numbers: 16-078-7029
Federal Award Year: 2013
U.S. Department of Agriculture

16-III-A (2016-001) Segregation of Duties over Federal Program: The City did not properly segregate all accounting and financial reporting duties, including those related to its major federal program. See item 16-II-A.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

CITY OF HANCOCK, IOWA
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PART IV: Other Findings Related to Statutory Reporting

16-IV-A Certified Budget: Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation." This appears to be due to employee oversight.

Recommendation: The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: The budget will be amended in the future, if applicable.

Conclusion: Response accepted.

16-IV-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

16-IV-C Travel Expense: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

16-IV-D Business Transactions: In accordance with Chapter 362.5 of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

16-IV-E Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

16-IV-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

16-IV-G Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

16-IV-H Revenue Notes: No instances of non-compliance with the revenue note resolutions were noted.

* * *